

LITCHFIELD FIRE DEPARTMENT

AUDIT REPORT

JUNE 30, 2008

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* LITCHFIELD FIRE DEPARTMENT	County* HILLSDALE	Type* OTHER	MuniCode* 30-7-508
Opinion Date-Use Calendar* Nov 20, 2008	Audit Submitted-Use Calendar* Nov 21, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input checked="" type="checkbox"/> \$ 107,572.00
General Fund Expenditure:	<input checked="" type="checkbox"/> \$ 118,588.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input checked="" type="checkbox"/> \$ 26,554.00
Governmental Activities Long-Term Debt (see instructions):	<input checked="" type="checkbox"/> \$ 16,667.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* GREG	Last Name* BAILEY	Ten Digit License Number* 1101022915		
CPA Street Address* 479 E CHICAGO ST PO BOX 11	City* JONESVILLE	State* MI	Zip Code* 49250	Telephone* +1 (517) 849-2410
CPA Firm Name* BAILEY, HODSHIRE & COMPANY	Unit's Street Address* 221 JONESVILLE ST	Unit's City* LITCHFIELD	Unit's Zip* 49252	

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Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Litchfield Fire Department
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Litchfield Fire Department as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Litchfield Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Litchfield Fire Department, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 - 3 and pages 15-16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bailey, Hodshire & Company, P.C.
Jonesville, Michigan
November 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

LITCHFIELD FIRE DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents management's discussion and analysis of the Litchfield Fire Department's (Department) financial performance during the year ended June 30, 2008. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Department as a whole and present a longer-term view of the Department's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Fire Department's operations in more detail than the government-wide financial statements.

The Fire Department as a Whole

Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the Department's governmental activities.

TABLE 1 - NET ASSETS

	<u>2007</u>	<u>2008</u>
Assets		
Current Assets	\$ 32,437	\$ 34,100
Noncurrent Assets*	<u>60,319</u>	<u>96,438</u>
Total Assets	<u>\$ 92,756</u>	<u>\$ 130,538</u>
Liabilities		
Current Liabilities	\$ 10,587	\$ 15,879
Noncurrent Liabilities	<u>0</u>	<u>8,334</u>
Total Liabilities	<u>\$ 10,587</u>	<u>\$ 24,213</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt*	\$ 60,319	\$ 79,771
Unrestricted	<u>21,850</u>	<u>26,554</u>
Total Net Assets	<u>\$ 82,169</u>	<u>\$ 106,325</u>

TABLE 2 - CHANGES IN NET ASSETS

Program Revenue		
Operating Grants and Contributions	\$ 83,600	\$ 88,600
Capital Grants and Contributions	8,008	16,992
General Revenue		
Interest	0	763
Other	<u>14</u>	<u>1,217</u>
Total Revenue	<u>\$ 91,622</u>	<u>\$ 107,572</u>
Expenses		
Public Safety	\$ 80,204	\$ 82,468
Interest on Long-Term Debt	<u>0</u>	<u>948</u>
Total Expenses	<u>\$ 80,204</u>	<u>\$ 83,416</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 11,418</u>	<u>\$ 24,156</u>

*Restated – see Notes to Financial Statements

LITCHFIELD FIRE DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

The Department's governmental activities consist of providing fire protection service to the City of Litchfield, Litchfield Township, and parts of Scipio Township and Butler Township.

The Fire Department's Funds

Our analysis of the Department's major funds begins on page 6 following the government-wide financial statements. The fund financial statements provide detailed information about the General Fund, the only fund maintained by the Department at this time. The most significant expenditure items for the General Fund are capital outlay, wages, maintenance, and insurance.

General Fund Budgetary Highlights

Over the course of the year, the Department amended the budget to take into account events during the year. The amount of vehicle maintenance was unexpectedly high this year, which reflected in an adjustment of the necessary items to take this change into account. Equipment costs, equipment maintenance, gasoline and oil, operating supplies, radios/equipment, membership and dues, and office supplies-postage were all higher than originally anticipated, but because of the significant savings achieved in other line items, the budget was effectively balanced.

General Asset and Debt Administration

The Department does not have title to any real property. The City of Litchfield and Litchfield Township have title, either jointly or individually, to the fire station and all but one of the fire rescue vehicles used in the Department's operations. The Department does have \$133,145 invested in turn-out gear, air packs, hoses, and an equipment truck purchased over the last few years.

As of June 30, 2008, the Department owed \$16,667 to the City of Litchfield Tax Increment Finance Authority (TIFA) on an original loan of \$25,000 for assistance with the purchase of the equipment truck.

Factors Bearing on the Fire Department's Future

If the condition of the economy remains uncertain, prices may continue to rise causing higher cost of operations for the fire department. The level of funding for the department's annual operations and long-term capital asset needs continues to remain stable. Paying the department members based on the amount of fire runs each of them makes causes an uncertainty in the amount of payroll the department endures. The more activity occurs, the more expenditures will rise. Increased standards in training and safety could also have an impact on the department.

Contacting the Fire Department's Management

This report is designed to give an overview of the financial conditions of the Litchfield Fire Department. If you have questions about this report or need further information, please contact the Department at 221 Jonesville Street, Litchfield, Michigan. You may also call Board Chairman Mike Burns (517) 542-3869 or Fire Chief Dan Pitts (517) 398-3022.

BASIC FINANCIAL STATEMENTS

LITCHFIELD FIRE DEPARTMENT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental <u>Activities</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 32,540
Prepaid Expense	<u>1,560</u>
Total Current Assets	\$ 34,100
Noncurrent Assets	
Capital Assets - Net	<u>96,438</u>
Total Assets	<u>\$ 130,538</u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 536
Accrued Payroll	7,010
Current Portion of Long-Term Debt	<u>8,333</u>
Total Current Liabilities	\$ 15,879
Noncurrent Liabilities	
Loan Payable – City of Litchfield TIFA	<u>8,334</u>
Total Liabilities	<u>\$ 24,213</u>
 NET ASSETS	
Invested in Capital Assets - Net of Related Debt	\$ 79,771
Unrestricted	<u>26,554</u>
Total Net Assets	<u>\$ 106,325</u>
Total Liabilities and Net Assets	<u>\$ 130,538</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Public Safety	\$ 82,468	\$ 0	\$ 16,992	\$ 23,124
Interest on Long-Term Debt	<u>948</u>	<u>0</u>	<u>0</u>	<u>(948)</u>
Total Governmental Activities	<u>\$ 83,416</u>	<u>\$ 0</u>	<u>\$ 16,992</u>	<u>\$ 22,176</u>
General Revenues:				
Interest Income				\$ 763
Miscellaneous				<u>1,217</u>
Total General Revenues				<u>\$ 1,980</u>
Change in Net Assets				\$ 24,156
Net Assets – Beginning*				<u>82,169</u>
Net Assets - Ending				<u>\$ 106,325</u>

*Restated -- see Note 8

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 32,540	\$ 32,540
Prepaid Expense	<u>1,560</u>	<u>1,560</u>
Total Assets	<u>\$ 34,100</u>	<u>\$ 34,100</u>
LIABILITIES		
Accounts Payable	\$ 536	\$ 536
Accrued Payroll	<u>7,010</u>	<u>7,010</u>
Total Liabilities	<u>\$ 7,546</u>	<u>\$ 7,546</u>
FUND BALANCE		
Unreserved	\$ 26,554	\$ 26,554
Total Liabilities and Fund Balance	<u>\$ 34,100</u>	<u>\$ 34,100</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balance - total governmental funds	\$ 26,554
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Add: Capital Assets	133,145
Deduct: Accumulated Depreciation	(36,707)
Certain liabilities, such as loans payable, are not due and payable in the current period and therefore are not reported in the funds	
Deduct: Loan payable to City of Litchfield TIFA	<u>(16,667)</u>
Net assets of governmental activities	<u>\$ 106,325</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General <u>Fund</u>	Total Governmental <u>Funds</u>
REVENUE		
Government Contributions		
City of Litchfield	\$ 32,500	\$ 32,500
Litchfield Township	32,500	32,500
Scipio Township	15,095	15,095
Butler Township	8,505	8,505
Donation from City of Litchfield TIFA	16,992	16,992
Interest	763	763
Other	1,217	1,217
Total Revenue	<u>\$ 107,572</u>	<u>\$ 107,572</u>
EXPENDITURES		
Salaries and Wages	\$ 25,325	\$ 25,325
Payroll Taxes	1,937	1,937
Workers Compensation	1,455	1,455
Office Supplies	681	681
Operating Supplies	2,819	2,819
Uniforms	33	33
Professional Fees	1,740	1,740
Firemen Wellness	67	67
Memberships	544	544
Utilities	4,656	4,656
Training	943	943
Insurance	9,891	9,891
Advertising	42	42
Building & Equipment Maintenance	13,606	13,606
Capital Outlay - Nondepreciable	7,065	7,065
Capital Outlay - Depreciable	47,784	47,784
Total Expenditures	<u>\$ 118,588</u>	<u>\$ 118,588</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ (11,016)</u>	<u>\$ (11,016)</u>
OTHER FINANCING SOURCES (USES)		
Loan from City of Litchfield TIFA	\$ 25,000	\$ 25,000
Loan Payments	(9,281)	(9,281)
Total Other Financing Sources (Uses)	<u>\$ 15,719</u>	<u>\$ 15,719</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 4,703</u>	<u>\$ 4,703</u>
FUND BALANCE - July 1, 2007	<u>21,851</u>	<u>21,851</u>
FUND BALANCE - June 30, 2008	<u>\$ 26,554</u>	<u>\$ 26,554</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
Reconciliation of the Statement of Revenue, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

Net changes in fund balances - total governmental funds	\$ 4,703
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation

Add: Capital Outlay	47,784
Deduct: Depreciation Expense	(11,664)

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct: Loan proceeds from City of Litchfield TIFA	(25,000)
Add: Principal payments on loan	<u>8,333</u>

Change in net assets of governmental activities	<u>\$ 24,156</u>
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The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Litchfield Fire Department (the "Department") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of the significant accounting policies used by the Department:

Financial Reporting Entity

The Litchfield Fire Department is a joint venture between the City of Litchfield and Litchfield Township in Hillsdale County, Michigan. It is governed by a seven-member board comprised of two members of the Litchfield City Council, two members of the Litchfield Township Board, one member of the Scipio Township and Butler Township Boards, and one member from the community at large.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Department as a whole. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Department's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Department, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Department.

Fund Financial Statements - Fund financial statements report detailed information about the Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column. The Department records all activities within the General Fund - - no other funds are required.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measureable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

purpose, the Department considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. Under the modified accrual basis, government contributions and grants are considered to be both measurable and available at fiscal year-end.

Financial Statement Presentation

The Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Department reports the following major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Department maintains a capitalization threshold of \$1,000. The Department does not possess any infrastructure. As of June 30, 2008, the Department does not have title to any real property. The City of Litchfield and Litchfield Township have title, either jointly or individually, to the fire station and all but one of the rescue vehicles used in the Department's operations.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Fire Equipment	10 years
Vehicles	15 years

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Fire Board at the line-item level. Any budgetary modifications may only be made by resolution of the Fire Board. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The Department follows these procedures in establishing the budget as reflected in the financial statements:

- 1) Prior to June 30, the Department submits a proposed operating budget for the upcoming fiscal year to the Litchfield City Council and the Litchfield Township Board for approval.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) The Fire Board is authorized to transfer budgeted amounts between line items; however, the Litchfield City Council and the Litchfield Township Board must approve any revisions that change the total expenditures of the Department.
- 5) During the year the budget is monitored, and amendments to the budget are made when deemed necessary.

NOTE 3 - CASH AND INVESTMENTS

State statutes authorize the Department to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of June 30, 2008, the Department's deposits are in accordance with statutory authority.

Following are the components of the Department's cash and investments at June 30, 2008:

<u>Cash</u>	
Cash on hand	\$ 100
Checking accounts	639
Total	<u>\$ 739</u>

<u>Investments</u>	
MBIA CLASS Investment Pool	<u>\$ 31,801</u>

**LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 - CASH AND INVESTMENTS (continued)

The Department's cash and investments are subject to several types of risk, which are examined in more detail as follows:

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department minimizes credit risk by limiting investments to the types of securities allowed by State law. The Department's investment policy puts no further limits on its investment choices. As of June 30, 2008, the Department's investment in the MBIA CLASS Investment Pool was rated AAA/V1+ by Fitch.

Concentration of Credit Risk - The Department places no limit on the amount the Department may invest in any one issuer; however, it does limit investment in commercial paper to no more than 50% of the total portfolio.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Department's investment policy requires that all deposits be insured by the FDIC. At June 30, 2008, the carrying amount of the Department's bank deposits was \$739 and the bank's balance was \$847. The entire bank balance was covered by federal depository insurance.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Department's investment policy discourages variable rate instruments and recommends maturities of two years or less.

Foreign Currency Risk - The Department is not authorized to invest in investments which have this type of risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Equipment	\$ 77,228	\$ 6,400	\$ 0	\$ 83,628
Vehicles	8,134	41,383	0	49,517
Less: accumulated depreciation	(25,043)	(11,664)	0	(36,707)
Total capital assets, net	<u>\$ 60,319</u>	<u>\$ 36,119</u>	<u>\$ 0</u>	<u>\$ 96,438</u>

NOTE 5 - LONG-TERM DEBT

The Department received a \$25,000 loan (and a \$25,000 donation) from the City of Litchfield Tax Increment Finance Authority (TIFA) to purchase an equipment truck in 2007-08. The loan is to be repaid over three years at an interest rate of 6%. Annual debt service requirements to maturity are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,333	\$ 948
2010	8,334	949
Total	<u>\$ 16,667</u>	<u>\$ 1,897</u>

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 - UNEMPLOYMENT TAXES

The Department is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

NOTE 7 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Department has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, physical damage, workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 8 - RESTATEMENTS

Beginning capital assets and net assets have been increased by \$8,134 to account for lights and radio equipment purchased in 2006-07 for the equipment truck that was purchased in 2007-08.

REQUIRED SUPPLEMENTARY INFORMATION

LITCHFIELD FIRE DEPARTMENT
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budget Amounts</u>			Actual Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
REVENUE				
Government Contributions:				
City of Litchfield	\$ 32,500	\$ 32,500	\$ 32,500	\$ 0
Litchfield Township	32,500	32,500	32,500	0
Scipio Township	15,095	15,095	15,095	0
Butler Township	8,505	8,505	8,505	0
Donation from City of Litchfield TIFA	16,992	16,992	16,992	0
Interest	0	0	763	763
Other	<u>0</u>	<u>0</u>	<u>1,217</u>	<u>1,217</u>
Total Revenue	<u>\$ 105,592</u>	<u>\$ 105,592</u>	<u>\$ 107,572</u>	<u>\$ 1,980</u>
EXPENDITURES				
Salaries and Wages	\$ 29,500	\$ 25,670	\$ 25,325	\$ (345)
Payroll Taxes	3,000	1,963	1,937	(26)
Workers Compensation	2,000	1,560	1,455	(105)
Office Supplies	600	681	681	0
Operating Supplies	2,200	2,819	2,819	0
Uniforms	1,800	33	33	0
Professional Fees	2,700	1,740	1,740	0
Firemen Wellness	300	67	67	0
Memberships	500	544	544	0
Utilities	6,300	4,656	4,656	0
Training	3,000	943	943	0
Insurance	10,820	9,891	9,891	0
Advertising	300	42	42	0
Building and Equipment Maintenance	8,000	16,275	13,606	(2,669)
Capital Outlay - Nondepreciable	2,300	7,065	7,065	0
Capital Outlay - Depreciable	<u>47,867</u>	<u>47,784</u>	<u>47,784</u>	<u>0</u>
Total Expenditures	<u>\$ 121,187</u>	<u>\$ 121,733</u>	<u>\$ 118,588</u>	<u>\$ (3,145)</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ (15,595)</u>	<u>\$ (16,141)</u>	<u>\$ (11,016)</u>	<u>\$ 5,125</u>

(continued on next page)

LITCHFIELD FIRE DEPARTMENT
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008
(continued)

OTHER FINANCING SOURCES (USES)				
Loan from City of Litchfield TIFA	\$ 25,000	\$ 25,000	\$ 25,000	\$ 0
Payments on Loan	<u>(9,000)</u>	<u>(9,281)</u>	<u>(9,281)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>\$ 16,000</u>	<u>\$ 15,719</u>	<u>\$ 15,719</u>	<u>\$ 0</u>
Excess of Revenue & Other Financing Sources				
Over (Under) Expenditures & Other Uses	\$ 405	\$ (422)	\$ 4,703	\$ 5,125
FUND BALANCE - July 1, 2007	<u>21,851</u>	<u>21,851</u>	<u>21,851</u>	<u>0</u>
FUND BALANCE - June 30, 2008	<u>\$ 22,256</u>	<u>\$ 21,429</u>	<u>\$ 26,554</u>	<u>\$ 5,125</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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November 20, 2008

Litchfield Fire Department
Litchfield, Michigan

In planning and performing our audit of the financial statements of the Litchfield Fire Department as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Financial Statement Preparation

The Department does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally. We recommend that you continue to carefully review the draft financial statements and notes prepared by your external auditors prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

In addition, we noted other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses.

Annual Budget

The minutes of the Fire Board meeting should specifically reference the public hearing that is held prior to the adoption of the annual budget. They should also describe, in general, the public comments made - - or state the fact that no comments were received from the public.

This communication is intended solely for the information and use of the Fire Board and others within the Department, and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshire + Company, P.C.

Jonesville, Michigan

November 20, 2008